

CHAPTER 18WORKING PAPERSA. PURPOSE

This chapter prescribes policies, principles, and criteria for the preparation, review, and retention of audit working papers for all internal audits **conducted** within the **Department** of Defense.

B. APPLICABILITY

The general **policies** contained in section D., below, are mandatory for all internal audit, internal review, and nonappropriated fund audit organizations (hereafter referred to collectively as "internal **audit** organizations"). The remaining sections provide guidelines which will ensure **compliance** with working **paper** policies and standards. Each organization shall review existing internal operating **procedures** to ensure they conform to these requirements.

C. DEFINITION

The term "working **papers**" encompasses all documents containing the evidence to support the **auditor's** findings, opinions, conclusions, and **judgments**. They include the collection of evidence prepared or obtained by the auditor during the **audit**.

D. POLICY

1. **Audit** working papers are the connecting link between field work and the audit **report**. They serve as the systematic record of work performed and shall contain **suff icient, competent,** and relevant evidence to support the auditor's findings, opinions, conclusions, judgments, and rcommendations in the audit report.

2. The increasing interest and attention given to **auditors'** reports make it mandatory that audit findings be adequately **supported** by evidence in the auditor's working papers. This evidence is necessary to demonstrate how the conclusions were arrived at and to provide the basis for determining whether the **conclusions** are reasonable and correct. **Good** working **papers** are evidence of properly planned, well organized, and effectively controlled audits.

3. The preparation and review of audit working papers shall conform to **audit** standards issued by the **Comptroller** General of the United States and **DoD** internal audit standards contained in Chapter 2 of this **Manual**.

4. Auditors shall observe the following basic principles when preparing audit working papers:

a. Working papers shall be **complete** and accurate to provide proper support for findings, conclusions, and **judgments**, and to demonstrate the nature and scope of the auditor's examination.

b. Working papers shall be understandable to a knowledgeable reader. Detailed supplementary oral explanations should not be needed.

c. Working papers shall be legible and neatly prepared.

d. The information in working papers shall be restricted to matters that are materially **important** and relevant to the objectives of the assignment.

5. Procedures shall be adopted by each audit organization to ensure the safe **custody** and retention of working papers for a time sufficient to satisfy the **legal** and administrative requirements of **their components**.

E. **STANDARDS**

Chapter 2 of this Manual contains the DoD internal **auditing** standards. **The** standards most related to the preparation, review, and retention of working **papers** are as follows:

1. 230 - Human Relations and **Communications**
2. 430 - Supervision
3. 440 - Examining and Evaluating Information
4. 700- Quality Assurance

F. **EVIDENCE**

1. Evidence may be categorized as physical, documentary, testimonial, and analytical. Descriptions of the categories are as **follows**:

a. Physical evidence is obtained by direct inspection or observation of (1) activities of people, (2) property, or (3) events. Such evidence may be documented in the form of memoranda summarizing the matters inspected or observed, **photographs**, charts, maps, or actual samples.

b. Documentary evidence consists of **created** information such as letters, contracts, accounting records, invoices, and management information on performance.

c. Testimonial evidence is obtained from others through statements received in response to inquiries or through interviews. Statements important to the **audit** should be corroborated when **possible** with additional **evidence**. Testimonial evidence **also** needs to be evaluated **from** the **standpoint** of whether the individual may be biased or only have partial knowledge **about** the area.

d. Analytical evidence **includes computations**, comparisons, reasoning, and separation of information into components.

2. The evidence obtained by an auditor should meet the basic tests of sufficiency, relevance, and competence. To meet these tests the following guidelines are provided:

a. Sufficiency is the presence of enough factual and convincing evidence to support the auditors' findings, conclusions, and any **recommendations**. Determining the sufficiency of evidence requires judgment. When appropriate, statistical methods may be used to establish sufficiency, (see Chapter 11, Part II, for guidance on the use of statistical sampling methods).

b. Relevance refers to the relationship of evidence to its use. The **information** used to prove or disprove an issue is relevant if it has a logical, sensible relationship to that issue.. Information that does not is irrelevant and therefore should not be included as evidence.

c. **Competence** means that the evidence should be valid and reliable. In evaluating the **competence** of evidence, the auditors should carefully consider whether reasons exist to doubt its validity or completeness. If so, the **auditors** should obtain additional evidence or reflect the situation in the report.

G. PLANNING AND UNIFORMITY

1. Well-planned and organized working papers are necessary to achieve a professional quality audit. Working papers are more than just a record of the work performed. Their use in controlling the audit operation and in arriving at **sound** conclusions is an auditing technique in itself. Adequate planning is the key to the development and preparation of good working papers. Before preparing any **working** papers, the auditor should have a clear concept of **the** primary purpose of the working **paper** and any subordinate purposes. Therefore, it is necessary to **understand** how the subject of the working paper relates to other audit areas and what will **be** done with the information after it is transcribed.

2. Working papers should be designed to provide any data required for the **audit** areas and should not include data that is or will be available from another source. Before the auditor develops working paper analyses, exhibits, and schedules, the **following** should be **determined**:

- a. What the objectives are or what needs to be proven.
- b. What data or information is needed to complete the analysis.
- c. 'Where the needed data or information is located (filed, recorded, etc.) .
- d. What comparisons must be made to prove the condition(s) or conclusion (s) .

3. As **part** of the overall plan for each audit, directions should be prepared that cover working paper file structure, indexing and cross-referencing procedures, and provisions for working paper reviews. Each assigned auditor should be familiar with the working paper plan.

4. When working papers are uniform in design and arrangement, this facilitates the reviewer's job. However, the primary consideration is how the audit is conducted, and efforts to achieve uniformity are secondary. If the working **papers** on a particular audit are of a uniformly high quality and are developed, organized, indexed, and controlled in accordance with the **overall** audit plan,

supervisors and other **knowledgeable** readers should experience no difficulty in reviewing them.

5. All relevant **working** papers prepared during an **audit** should be retained and included in the files. Working papers developed using **microcomputers** should be printed when required for ease of review and included in the audit folders, or maintained on **computer** disks for retention with the working paper files (specific guidance for **automated** working **papers** is contained in Chapter 11, Part III, of this Manual) .

6. Even though auditing in a particular area may be discontinued after a few audit steps, the reasons for discontinuance should be recorded in the working papers. If a finding is dropped prior to the issuance of the final report, the reasons for the action should be **documented**. This is often a matter that may require discussion with and resolution by a higher level supervisor. The rationale for the decision should be documented in the audit working papers to **enable** reviewers to track the disposition of tentative **audit findings**.

H. ARRANGEMENT OF WORKING PAPERS

1. There are two general classes of working paper files: **permanent** (background) and current. Internal audit organizations should establish and maintain permanent files for each activity, major program, or function included in the organization's **audit** universe. **Current** files should be set up for each **audit** and **contain** the working **papers** developed during that **audit**.

2. Materials contained in permanent files should be of a continuing or recurring nature and useful in future audits. Background data obtained during the survey phase should **be** included in this file. The permanent file can also serve as a **repository** for copies of all prior audit and inspection **reports** relating to that activity. Unnecessary **or** outdated material should be destroyed during **periodic updates** of the file. The permanent file can be a convenient single source to which to go for information regarding the audit entity and its **audit** history.

3. Current files should be arranged in a logical sequence in accordance with the file structure developed by the auditor-in-charge. Generally, the arrangement will be **by** audit segment. For large **audits**, the current files may consist of several distinct segments: one file for each segment examined, others for general segments pertaining to the audit as a whole, and one for **audit** administrative matters. **Items** should **be** arranged within working paper files to provide for ready reference during and after the **audit**; and the item should **follow** a consistent scheme for all segments of the audit files. Current files should contain the following items:

- a. Table of contents.
- b. Review sheets.
- c. **Summary** of the **audit** area.
- d. Notes detailing discussions with personnel of the audited activity.

e. The audit program, or sections of the audit program, cross-referenced to supporting working papers.

f. Analyses, schedules, exhibits, and other working papers and supporting **documentation** arranged according to the table of contents and cross-referenced back to the audit program.

I. PRINCIPLES OF DOCUMENTATION

1. The procedures followed by the **auditor**, including the analysis and interpretation of the audit data, should be documented in the working papers. Working papers should be sufficiently **documented** so as to be understood by readers having sane knowledge of the subject and to lead a reviewer to the same conclusion the auditor reached without requiring **supplementary** oral explanations. Working paper information should be clear **and** complete, yet concise. Knowledgeable individuals using the working papers should **be** able to readily determine their **purpose**, the **nature and scope of the** audit work, and the preparer's conclusions. Good working **papers** also permit another auditor to pick up the examination at a certain point (for example, at the **completion** of the survey phase) **and** carry it to its conclusion.

2. Certain basic information applies to most working papers or series of working papers. When the information is **common** to a series of working **papers, it** need only be recorded on the first **paper** of the series and referred to in the **succeeding** working papers. The **basic** information includes the following:

- a. Subject of the working paper.
- b. Identification of the activity being audited and the function being examined.
- c. The "as of" date for the information and the records used in the analysis.
- d. Name of the preparer/name of reviewer.
- e. Date prepared/date reviewed.
- f. Explanation of any signs, symbols, or acronyms used.
- g. Working paper index number for filing and reference.

3. Other information is also essential to understand **the** individual **working** papers supporting the audit examination. The following information should be included whenever applicable:

a. Source of Information. Where did the auditor obtain the information shown in the working papers? This applies to schedules prepared by the audited activity and furnished the **auditor**, as well as to data **compiled** by the auditor.

b. Purpose of the Working Paper. What is the reason for preparing this working paper? Clearly stating the purpose of each working paper facilitates review of the papers as well as use by succeeding auditors.

c. Scope of the Auditor's Examination. What did the auditor's examination include? This is particularly important when determining the volume of the transactions involved; the number examined; what **part** of the total volume the audit test represents; why these transactions were selected; the period covered by the auditor's review; and what the examination consisted of (for example, **comparison** of data between different periods, matching data to standards, etc.) . When the analysis was based on a sample of transactions, information should **be** included to describe the sampling plan contained elsewhere in the working papers. When factors external to- the **audit** organization and the auditor restrict the **audit** or interfere with the auditor's ability to form objective opinions and conclusions, this should **be** explained in the working papers.

d. Criteria. What criteria, standards, policies, etc., did the auditor use to support a judgment? Whenever applicable, a reference to this criteria should be included. This can be satisfied by citing applicable documents such as regulations, laws, standards, etc.

e. Conclusions. What judgment did the auditor reach after analyzing the data? These are the conclusions drawn from analysis and interpretation of the results of the **auditor's** test and from any related facts. When the conclusions recorded on one working paper are based in part on information in other working papers, this fact should be noted and appropriately cross-referenced.

f. Comments and Viewpoints by Others. What are the **comments** and viewpoints made by others regarding the auditor's facts and conclusions? This information is needed to place the auditor's conclusion in **perspective**. The **viewpoints** and **comments** of operating personnel or other pertinent matters bearing on the auditor's conclusions should be made a matter of record. For example, the auditor may wish to include an explanation of the causes or extenuating circumstances for any noted deficiencies.

J. WORKING PAPER SUMMARIES

Narrative **summaries** should be **prepared** by the auditor for all audit areas and **included in** the working papers. **Summary** sheets will be used to consolidate the results of various audit steps. They will also be used to control and administer the audit and to analyze and interpret the **audit** results. Summary sheets should **be summarized** in one of the papers of the series. **Summaries** should **support** the development of audit findings and clearly **spell** out deficiencies surrounding facts, effects, causes, and **recommended** actions. If no deficiencies are found, that information should also be summarized for the record.

K. INDEXING

1. To facilitate review and understandability of working papers, indexing of the files is essential. The primary purpose of indexing is to facilitate the cross-referencing of working papers one to another and to summary analyses and **reports**. A secondary purpose is to indicate the relationship of the working **papers** to the particular areas or segments of the audit. Because of the diversity of audits made by the DoD **internal** audit organizations, a uniform **system** of indexing may be impractical.

2. An indexing system for each audit should be established as part of the overall audit plan. It should be tailored to the overall focus of the audit, the selection of areas for **emphasis**, and the planned sequence of the audit. By following the audit plan, the indexing system permits ready reference to any working paper at any time.

3. The indexing **system** should show the logical grouping of interrelated working papers. Appropriate groupings will not only contribute to ease of reference, but will assist the **auditor's** analysis, interpretation, and **summari-
zation** of the results of the **audit** by audit segments, and facilitate supervisory review.

4. The indexing system should be simple and capable of expansion.

5. Indexing should be current. Preferably, working papers should be indexed as soon after their **preparation** as possible. **Having an indexing** plan available will make this task **easier**.

L. CROSS-REFERENCING

1. No audit should be mnsidered **complete** until the working paper files are thoroughly and accurately cross-referenced. The audit **report** is developed through an evolutionary process, including detailed **supporting** working papers, analyses, **summaries**, findings, and draft and final reports. Cross-referencing at each step in the process is necessary to ensure that all pertinent facts and conclusions have been considered and that support exists for the auditor's position. This decreases the probability of a defective final product-the **audit** report.

2. Changes to or corrections made of supporting information should also be referenced to other affected sections of the working papers. **To** be effective, cross-referencing should be current. At a minimum, working **papers** should be cross-referenced to other related papers, the **audit** program, summaries, and the draft audit **report**. A copy of the final audit report, filed with the working papers, should also be cross-referenced if any new information is added as a result of the audit reply process. Sufficient time should be allowed to ensure that both cross-referencing and indexing of the **audit** working **papers** are **completed** before auditors are released f ran the assignment.

M. WORKING PAPER REVIEWS

1. Continuous reviews of audit working papers should be made to ensure that professional audit standards are **complied** with. This procedure gives the reviewer the opportunity to appraise the quality of the papers, the relationship of the audit work to the objectives, and the **completeness** of the auditor's examination. It also permits the reviewer to assess the auditor's conclusions, determine what additional steps are necessary, and decide whether to expand or cut back the **audit** coverage.

2. The depth of the working paper reviews will vary with each level of supervision. Reviews by lead auditors or the **auditor-in-charge** should be accomplished frequently during the audit and **should** be more detailed than **those** made by senior audit supervisory personnel. Supervisors, at a minimum, should ensure that standards for working **paper** preparation are met and that there is adequate support for the auditor's conclusions and recommendations.

3. **The** auditor should be informed of the results of the working paper reviews. After the auditor has considered the reviewer's notes, he or she should revise the working papers and perform additional work if needed. The auditor should then **comment**, in writing, on the revisions and on any additional work **accomplished**. The reviewer, in turn, should indicate on the review notes acceptance of the actions taken, direct further action, or take whatever steps are needed to resolve any problems.

4. **To** ensure the accuracy of the facts and figures in the draft audit **report** (also the final report if the draft report was significantly changed) , a **cross-**referenced copy of the report should be reviewed by an independent reviewer (reference) to ensure that the information in the report is correct and supported in the working papers. The reference should be a senior **auditor** not involved in the assignment under review. In addition, the reference should not be under the direct supervision of the supervisor responsible for the assignment being reviewed. In small organizations, the independence of the reference might not always be possible, but the intent of the review is to ensure the accuracy of the report and should still be **accomplished** even though there may be an impairment. The review should be documented in the working papers and should contain the reviewer's **comments** and how the issues raised were resolved.

5. In establishing internal **quality** assurance review programs, as required under Chapter 14, audit working papers shall be subjected to review on a selective basis by quality assurance review groups. The primary **purpose** of these reviews should be to ensure that audit findings are adequately documented and that working papers meet professional standards.

N. **RETAINING AND SAFEGUARDING WORKING PAPER FILES**

1. No specific procedures are prescribed for retaining working paper files. As a general rule, working papers should be retained for a minimum of 2 years **from** the closeout of an audit or until **completion** of the succeeding audit. There may be certain factors-controversial or current interest subjects-which **would** necessitate holding working **papers** for longer **periods**. There may be ongoing congressional or other investigations or unsettled issues where continued reference to the working **paper** files is needed. One should **be** careful not to destroy files that may be needed for future reference. Obsolete or superseded audit material that is no longer needed may be destroyed and should not be sent to records holding centers.

2. Working paper files should always be adequately safeguarded, and prescribed security procedures should be followed for classified material. Access to working paper files should be restricted to authorized personnel. **Special** precautions should be taken with any working papers, including report drafts that may contain proprietary data, personal privacy data, plans for future agency operations, agency investigative and internal audit reports, congressional request material, and other unclassified sensitive information. Sensitive working paper material should be safeguarded when not in use to prevent leaks and unauthorized disclosure.

3. Electronic working papers should be retained for the same period of time as is required for manually prepared working papers. Storage of magnetic tapes and diskettes requires special provisions. If magnetic devices are not stored

properly in a cool and dry environment, significant loss of information may occur. Heat and humidity may ruin diskettes.

a. When working papers are stored on diskettes, diskettes should be stored along with listings of diskette directories. Each diskette should be write-protected and labeled with the project code, key person's name, number, and contents. Applicable back-up copies of diskettes should be made and stored in a physically separate location.

b. Even when most of the audit working papers are available in **automated** form, it may be necessary to maintain hard **copy** documentation for certain parts of the working papers. This is especially **important** when certain documents require off **icial** signatures or when proper storage conditions for **automated** working papers cannot be ensured.

c. It may not always be practical to store copies of numerous **automated** data tapes used in an audit or to retain a copy of an entire data base when on-line access to a data base is used. In those cases, **automated** data tapes and records should be retained until at least the audit report has been issued and all nonconcurrence resolved. When data is **extracted** f ran a data base system, the sampling plan, the criteria used to select records, the **computer** program designed to generate the output, and the resulting output **should** be sufficient evidential matter for audit **retention**.